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Turnaround in Soviet Hard Currency Payments

Until this year the USSR has been unable to generate sufficient exports to finance growing imports from hard currency countries. In 1973, the Soviet trade deficit with these countries was \$1.75 billion.

But there has been a turnaround in the Soviet hard currency picture.

- High oil and raw material prices will increase Soviet exports substantially, and grain imports will drop in 1974. An export surplus of \$1-1½ billion is expected in 1974 and possibly a larger surplus in 1975.
- High gold prices provide an additional cushion. At \$150 an ounce, sales out of current production would earn the Soviets over \$1 billion in 1974 and even more in subsequent years.

The strong Soviet hard currency position will improve the USSR's economic bargaining power for the next few years.

- Moscow can now afford to pay cash. It recently agreed to buy roughly \$800 million worth of equipment for the Kursk steel complex in this fashion and has hinted that it might make similar offers to US companies.
- The USSR can resist high interest rates and is likely to bargain hard on other commercial terms.
- The Soviets can also consider postponing exports of some commodities, such as diamonds, which probably will bring higher prices in the future.

In the longer term, payments prospects are less favorable, however.

- Declining oil exports by the end of the decade will curb the increase in export earnings.
- Debt will grow if Moscow chooses to maintain the growth of imports.
- Total debt to hard currency countries could rise to as much as \$13 billion by 1980 compared with \$4 billion today.

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The turnaround in the Soviet hard currency position will enable Moscow to substantially increase purchases of US machinery and grain.

- The Soviets will have less reason to demur at price where they prefer US equipment and technology.
- At the same time, the Soviet bargaining position will be strengthened in negotiations with the United States, e.g., the availability of Eximbank credits will be less important.
- Although Soviet imports of US grain have fallen off in 1974 as a result of the completion of the abnormally large 1972-73 contracts, the USSR presumably will maintain its domestic meat program and thus will be an important claimant on future world grain supplies.
- As for Soviet exports to the United States, we would not expect the improvement in Moscow's financial prospects to lessen Soviet pressure for access to US markets.

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